



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
30 July 2021	
10:00 am	<u>Public</u>
23 September 2021	

ANNUAL ASSURANCE REPORT OF AUDIT COMMITTEE TO COUNCIL 2020/21

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1. Summary

- 1.1. A key part of the Audit Committee's role is to report annually to Full Council on the Committee's findings, conclusions and recommendations. Audit Committee has some concerns but on balance can provide reasonable assurance.

2. Executive Summary

- 2.1. Attached to this report is the Audit Committee's Annual Assurance Report to Council for 2020/21. This provides Council with independent reasonable assurance that it has in place adequate and effective governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements that can be relied upon and which contribute to the high corporate governance standards that this Council expects and maintains consistently.
- 2.2. The Audit Committee recognises and is concerned about the limitations identified in the internal control framework as reported in the Head of Audit's Opinion and the potential impact on value for money but on balance, can provide reasonable assurance, founded on those reports, explanations and assurances received, throughout the year.

3. Decisions

3.1. Recommendations to Council

Council is asked to consider and comment on the contents of the Annual Assurance report for 2020/21 before recommending accepting this report. In considering the report, Members are asked to recognise that Audit Committee would not be as effective without the backing, reports and training from Audit staff.

REPORT

4. Risk Assessment and Opportunities Appraisal

- 4.1. The Audit Committee's Annual Assurance Report is part of the overall internal control arrangements and risk management process. The Audit Committee objectively examines and evaluates the adequacy of the control environment through the reports it receives and in turn can provide assurances to Council on its governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements that inform the Annual Governance Statement.
- 4.2. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change requirements or consequences of this proposal.

5. Financial Implications

- 5.1. There are no direct financial implications from this report. In assessing the internal control environment, risk management and governance aspects of the Council, the Audit Committee can provide a perspective on the overall value for money of these.

6. Climate Change Appraisal

- 6.1. This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting and mitigation; or on climate change adaptation. Therefore, no effect to report.

7. Background

- 7.1. A key part of the Audit Committee's role is to report annually to Full Council on the Committee's findings, conclusions and recommendations; providing its opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements. In addition, the Audit Committee should report to Council where they have added value, improved or promoted the control environment and performance in relation to its Terms of Reference and the effectiveness of the Committee in meeting its purpose and functions.
- 7.2. The Audit Committee has a well-established role within the Council, and it is important that an Annual Assurance report based on the work of the Committee is produced and recommended to Council. In compiling this assurance report, information provided at the Audit Committee meeting on 30th July 2021 has also been considered.
- 7.3. In addition, this report has been reviewed to ensure its continuing compliance with CIPFA¹'s Audit Committees, Practical Guidance for Local Authorities and Police, 2018 edition. This requires the Audit Committee to be held to account on a regular basis by the Council specifically in relation to:

Whether the;

- committee has fulfilled its agreed terms of reference;
- committee has adopted recommended practice;
- development needs of committee members have been assessed and whether committee members are accessing briefing and training opportunities;
- committee has assessed its own effectiveness, or been the subject of a review, and the conclusions and actions from that review and,
- what impact the committee has on the improvement of governance, risk and control within the Council.

8. Conclusion

¹ The Chartered Institute of Public Finance and Accountancy.

- 8.1. The annual assurance report to Council for 2020/21, attached to this report, is an aid to addressing the key areas where the Committee should be held to account. **(Appendix A).**

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

CIPFA's Audit Committees, Practical Guidance for Local Authorities and Police, 2018 edition
Audit Committee reports 2020/21

Cabinet Member (Portfolio Holder)

Lezley Picton, Leader of the Council and Brian Williams, Chairman of the Audit Committee

Local Member

N/A

Appendices

Appendix A - Draft Audit Committee Annual Assurance Report 2020/21



APPENDIX A

AUDIT COMMITTEE ANNUAL ASSURANCE REPORT FINANCIAL YEAR 2020/21

STATEMENT FROM THE CHAIRMAN OF THE AUDIT COMMITTEE

1. Governance in and of the public sector continues to be high profile with the Chartered Institute of Public Finance and Accountancy (CIPFA) supporting good practice in local government. In Shropshire we have a Code of Corporate Governance which is reviewed annually in line with the best practice issued by CIPFA and SOLACE²; we have also produced an Annual Governance Statement, again in line with best practice and legislative requirements. Being well managed and well governed are important attributes in helping to improve performance and in reducing the risk of failing to achieve our objectives and providing good service to our community.
2. Shropshire Council has an Audit Committee that is long established in seeking to maintain and improve our governance procedures. The Committee is a key component of the Council's corporate governance arrangements and a major source of assurance of the Council's arrangements for managing risk, maintaining an effective control environment and reporting on internal and external audit functions and financial and non-financial performance.
3. The benefits to the Council of operating an effective Audit Committee are:
 - Maintaining public confidence in the objectivity and fairness of financial and other reporting.
 - Reinforcing the importance and independence of internal and external audit and any other similar review process; for example, reviewing and approving the Annual Statement of Accounts and the Annual Governance Statement.
 - Providing a sharp focus on financial reporting both during the year and at year end, leading to increased confidence in the objectivity and fairness of the financial reporting process.
 - Assisting the co-ordination of sources of assurance and, in so doing, making management more accountable.
 - Providing additional assurance through a process of independent and objective review.
 - Raising awareness within the Council of the need for governance, internal control and the implementation of audit recommendations.

² Society of Local Authority Chief Executives

- Providing assurance on the adequacy of the Council's risk management arrangements and reducing the risk of illegal or improper acts.
4. The Committee continues to have a professional and arm's length relationship with Grant Thornton, the Council's external auditors, who attend all meetings of the Committee to offer their advice where needed.
 5. The Committee undertakes a substantial range of activities and works closely with both internal and external auditors and the Chief Finance Officer (Executive Director of Resources {Section 151 Officer}) in achieving our aims and objectives. We have put together a work and development plan for the year to enable key tasks to be considered and completed.
 6. As Chair of the Audit Committee, I see training as a key priority for members to undertake our roles effectively. The Committee continues to undertake a full and extensive programme of training and this year has been no exception. Training has been received in relation to:
 - Using MSTeams for virtual meetings, optimising the performance of the Audit Committee using technology and flexible workplaces
 - Capital Strategy and Programme
 - What to look for when considering the year end reports during a period of responding to COVID
 - Response to COVID Business Continuity and Emergency Planning
 - Managing our staff during COVID
 - Impact on Finance and associated processes as a result of COVID
 - Impact on the Internal Audit focus
 - Public Health Response to COVID
 - MHCLG³ Local Government Finance presentation
 - Local government finance and the COVID19 pandemic: a NAO perspective

Members also have access to CIPFA's Better Governance Forum network which provides specific information in the form of regular briefings, training events, and an informative web site and received various communication updates throughout the year on the following topics:

- The latest strategic, finance and governance issues that will have implications for audit committee members
- Auditor's work on value for money arrangements
- The role audit committees can play in supporting the head of internal audit's annual opinion
- Reviewing the audit plan

³ Ministry of Housing, Communities and Local Government

- Self-assessment and improving effectiveness
- Developing an effective annual governance statement
- Focus on local audit
- COVID-19 pandemic – Key issues for the Audit Committee
- The annual governance statement for 2020/21
- Local auditors and internal audit working together

7. This year the Committee has held eight planned meetings including the meeting held on 30th July 2021. We have received and considered a substantial number of reports across key areas of the Council's activity (see **Annex A**).

Audit Committee Membership and Dates of Meetings

8. Membership of the Audit Committee for 2020/21 to May 2021 was made up of the following Councillors: Peter Adams (Chairman), Brian Williams (Vice Chairman), Chris Mellings, Michael Wood and Ioan Jones. From May 2021, membership was made up of Councillors, Brian Williams (Chairman), Simon Harris (Vice Chairman), Rosemary Dartnall, Nigel Lumby and David Vasmer.
9. Substitutes were invited to attend and contribute at all meetings and training.
10. Meetings of the Committee have been held on:
- 31 July 2020;
 - 17 September 2020;
 - 29 October 2020;
 - 10 December 2020;
 - 11 February 2021;
 - 4th March 2021;
 - 20th May 2021 (Election of Chairman and Vice only) and
 - 30th July 2021.

Details of Reports/Information Received

11. **Annex A** provides a summary of the key reports and information received by the Audit Committee at its meetings. These appear categorised in the areas which, under the Terms of Reference, Audit Committee have a responsibility to consider and report upon. They are:
- Governance;
 - Risk management framework;
 - Controls, including specific focus on:
 - Contracts and partnerships
 - Fraud, corruption and whistleblowing
 - Value for money
 - Financial reporting and treasury management.
- A detailed audit work plan has been agreed for the current year.

12. Following receipt of the reports the Audit Committee:
- Resolved that there were reasonable arrangements for corporate governance and where improvements are required there is a clear improvement plan with dedicated lead officers that will be monitored by Members.
 - Resolved that the risk management and assurance framework was fit for purpose and operating as intended.
 - Recognised the increased risks in the control environment and resolved that there is still a need with pressures on resources and following the Council's response to COVID and changes to major systems, to ensure continual monitoring by management and members alike on the internal control environment. Members focus will remain on areas critical to the Council, i.e. internal control environments in respect of the embedding of ERP software, major contracts and commercial activities; alongside the Council's ongoing response to COVID19.
 - Resolved that there were effective arrangements for the prevention and detection of fraud and corruption, and for enabling whistleblowing (confidential reporting).
 - Resolved that there was evidence of effective arrangements in place to support Value for Money but recognised the links to good financial management and sound internal controls in minimising opportunities for waste and fraud and maximising income and use of all assets, and the need to ensure continual monitoring by management and members alike given the reported direction of travel of the internal control environment.
 - Resolved that Financial Statements reflected the Council's true position, were complete including all transactions, and were prepared in accordance with International Financial Reporting Standards.
13. The Head of Audit has offered limited assurance for the 2020/21 year on the Council's framework for governance, risk management and internal control. There are a continuing and increased number of high and medium risk rated weaknesses identified in key individual assignments that are significant in aggregate but where discrete parts of the system of internal control remain unaffected. Management of Coronavirus has introduced unprecedented pressures and responses, and this inevitably has impacted upon her opinion. Managers' priorities have been diverted to business continuity pressures and this has removed capacity to plan and deliver improvements to known internal control processes, leading to maintained and increased risks in some areas that may impact on delivery of the Council's objectives. The year has continued to be challenging with the embedding of key fundamental line of business systems (financial and human resources), changes of key managerial posts, alongside a challenge to deliver savings,

increase income and respond to changing Coronavirus pressures, at times on a daily and weekly basis.

Audit Service Staff

14. The key staff are James Walton, the Section 151 Officer, Ceri Pilawski, the Head of Audit and her deputies, Principal Auditors: Katie Williams, Peter Chadderton and Barry Hanson.
15. Without the support of all Audit staff and of the officers mentioned above, it would not be possible for the Audit Committee to be as highly effective as peer comparisons show us to be. My thanks and that of my fellow committee members are given to all our Audit Service officers.

Annual Statement of Assurance

16. Based on:
 - The work carried out by the Internal and External Auditors and their reports presented to this Committee;
 - Reports from service managers and;
 - The work carried out by the Section 151 Officer, Head of Audit and their reports presented to this Committee.The Audit Committee recognises and is concerned about the limitations identified in the internal control framework and the impact on value for money. However, on balance, the Audit Committee can provide reasonable assurance, founded on those reports, explanations and assurances received, that the Council has in place adequate and effective governance, risk management and internal control systems; internal, external audit functions and financial reporting arrangements that can be relied upon and which contribute to the high corporate governance standards that this Council expects.

RECOMMENDATION – Council is asked to accept this report

Signed Date.....
On behalf of the Audit Committee
Brian Williams

Summary of assurance reports received by Audit Committee

Governance

- **Management report; Annual Governance Statement (AGS) and a review of the effectiveness of the Council's internal controls and Shropshire's Code of Corporate Governance**

Report of the Section 151 Officer on the effectiveness of the system of internal controls and the production of the Annual Governance Statement. In addition, he reported on compliance with the Corporate Governance Code as reasonable.

- **Internal Audit – Annual review of Internal Audit, Quality Assurance and Improvement Programme (QAIP) 2020/21**

Report of the Section 151 Officer which provided Members with the results of a self-assessment of the Internal Audit Service against the requirements of the Public Sector Audit Standards, compliance against which demonstrates an effective Internal Audit service. There are no areas where the Internal Audit function is not complying with the Code and, whilst there are areas of partial compliance, these are not considered significant and do not compromise compliance with the code. It was noted the report should be read in conjunction with the Internal Audit Annual Report.

- **Annual review of Audit Committee terms of reference**

Report of the S151 Officer which set out changes proposed in the Terms of Reference to reflect constitutional changes allowing the Audit Committee to approve the Final Accounts Pack including the Statement of Accounts. It was confirmed that the Constitution allowed for the Committee to refer items to Cabinet and/or Council throughout the year where the Committee felt there was enough cause for concern.

- **Annual Audit Committee self-assessment**

Report of the Section 151 Officer which requested members to review and comment on the self-assessment of good practice questionnaire to assess the effectiveness of the Audit Committee and identify any further improvements. Following the assessment Members have identified areas for future focus and training sessions.

- **Internal Audit Charter**

Report of the Head of Audit which set out the requirement for an annual review of the Internal Audit Charter which had been completed. There were no proposed changes.

➤ **Draft Audit Committee annual work plan and future training requirements**

Report of the Head of Audit which provided a proposed Audit Committee work plan and sought discussion and agreement around a learning and development plan for members to ensure they were well informed and appropriately skilled to fulfil their role. It was recognised that membership of the Committee would be different after the election and that there may be different requirements which would need to be added to the programme. The Head of Audit confirmed that the work plan and learning and development plan could be amended throughout the year.

➤ **Annual Assurance report of Audit Committee to Council 2020/21**

Report of the Section 151 Officer in respect of the Audit Committee's Annual Assurance report to Council.

The Audit Committee resolved that there were reasonable arrangements for corporate governance and where improvements are required there is a clear improvement plan with dedicated lead officers that will be monitored by Members.

Risk Management Framework

➤ **Management report: Risk Annual Report 2019/20 incorporating strategic risks update**

Report of the Risk and Insurance Manager which set out the challenges and achievements accomplished by the Risk and Insurance Team during 2019/20. The team includes both business continuity management and the civil contingencies responsibilities of emergency planning and as a result of this the team have experienced an unprecedented workload due to significant weather events and Coronavirus. However, the team has worked tirelessly to respond to all these incidents whilst maintaining delivery of the day job. She then drew attention to the 'good' assurance level achieved following a risk management audit and confirmed that robust policies and procedures were now in place to better respond to a further outbreak.

➤ **Management report: Strategic risks update**

Reports during the year from the Risk and Insurance Manager set out the current strategic risk exposure. There were currently 17 strategic risks on the strategic risk register, and one new risk definition for reliance on cyber and ICT infrastructure. The Risk and Insurance Manager advised Members that the new ways of working and other measures introduced as a result of the Covid Pandemic had led to the redefinition of some risks and the creation of new risk profiles.

➤ **Internal Audit report of the review of Risk Management audit 2020/21**

Report of the Principal Auditor which summarised the detailed findings identified in the Internal Audit review of risk management of which the overall control environment had been assessed as Good, the highest rating that could be given.

➤ **Draft Internal Audit risk-based plan 2021/22**

Report of the Head of Audit on the proposed risk based Internal Audit Plan for 2021/22. She drew attention to the summarised Internal Audit Plan which covered all requirements but highlighted that there could be a need to amend the plan when the ongoing effects of the pandemic were assessed and provided a proposed list of audit areas that would be removed to allow resources for Covid response activities.

She also referred members to the appendix, which set out those audit areas of high priority for which no provision had been made in this year's internal audit plan those low risk areas that would not be considered for review by Internal Audit on a rolling basis, to allow Members to consider first line assurances, if required, from managers on these areas.

The Audit Committee resolved that the risk management and assurance framework was fit for purpose and operating as intended.

Controls

➤ **Management Report: Leisure Services Progress Update**

The Assistant Director of Homes and Communities introduced the report which gave an update on progress on audit recommendations for Leisure Services and assurance to members.

➤ **Management Report: Highways Term Maintenance and Highways Design Contracts (Exempted by Category 5)**

The Head of Head of Audit updated Members with the key findings following reviews of the Highways Term Maintenance Contract and Highways Design Contract and actions that management were taking. This was followed by:

➤ **Management report: Highways Term Maintenance Contract**

The Director of Place and Enterprise updated Members with progress following a further audit of the Highways Term Maintenance Contract. Following a request from the External Auditor, on completion of the Highways Term Maintenance and Highways Design Contract Internal Audit reviews, details of which were explored in the exempt part of the Audit Committee's business. Given the size of the contract; impact on key Council services and that the control improvements have not impacted greatly on the assurance level for the 2020/21 Internal Audit, an adjustment was agreed to the Annual Governance Statement to reflect this.

➤ **Internal Audit performance report and revised annual audit plan 2020/21**

Report of the Head of Audit which provided Members with an update of the work undertaken by Internal Audit throughout the year. By September she informed Members that 35% of the revised plan had been completed and due to the impact of Covid, there had been a significant adjustment to planned audit activity with the Audit Team supporting the Council in administering the Governments Covid-19 Business Support Grants amongst other activities. The Service Manager and Portfolio Holder with responsibility for the Pensions Payroll Interface were requested to attend a future meeting of the Committee. The Head of Audit committed to write to all Heads of Service where the date of implementation of fundamental recommendations had expired to follow up on the implementation.

By mid-November 2020, the revised plan was on target for 90% completion. The Head of Audit drew attention to a slight adjustment to the planned activity due to Covid-19 and a decrease in the higher levels of assurance, with a corresponding increase in unsatisfactory assurances, an early indicator of a weaker control environment across the Council. Members were informed of an increasing risk that the ongoing impact of Covid may have on time frames and the need for extensions.

At her March 2021 update the Head of Audit informed members that 79% of the revised plan had been completed; There had been significant revisions to the plan to reflect adjustments in both risks and a reduction in available resources given the continuing impact of the Covid pandemic. She reminded Members that they had been made aware both through reports to their Audit Committee and training sessions, where Internal Audit resources have been deployed to support service areas responding to the pandemic. In doing this, the Head of Audit was able to take assurance from knowledge gained by Auditors working within these areas and whilst not independently tested, in these unprecedented times, professional judgement was applied to several governance, internal control and risk management issues, the details of which were summarised in the report. The number of lower level assurances 49%, at this point in the year, is significantly higher than the outturn for 2019/20 of 36%. Reflected in significantly higher numbers of audited areas attracting unsatisfactory assurance (20%) compared to the previous year outturn. Whilst this did not yet demonstrate a complete picture, it was an early indicator of a weaker control environment across the Council and whilst not unexpected, with the additional pressures of responding to the COVID pandemic, was flagged up to be managed appropriately.

➤ **Internal Audit annual report 2020/21**

Report of the Head of Audit on achievements against the revised internal audit plan for 2020/21 and the annual internal audit assurance. The Head of Audit gave limited assurance for the 2020/21 year that the Council's framework for governance, risk management and internal control is sound and working effectively. She explained that there are continuing, and increased numbers of high and medium risk rated weaknesses identified in key individual assignments that are significant in aggregate but where discrete parts of the system of internal control remain unaffected. Management of Coronavirus has introduced unprecedented pressures and responses, and this inevitably has impacted upon her opinion. Managers' priorities have been diverted to business continuity pressures and this has removed capacity to plan and deliver improvements to known internal control processes, leading to maintained and increased risks in some areas that may impact on delivery of the Council's objectives. The year has continued to be challenging with the embedding of key fundamental line of business systems (financial and human resources), changes of key managerial posts, alongside a challenge to deliver savings, increase income and respond to changing Coronavirus pressures, at times on a daily and weekly basis.

The Audit Committee recognise the increased risks in the control environment and resolved that there is still a need with pressures on resources and following the Council's response to COVID and changes to major systems, to ensure continual monitoring by management and members alike on the internal control environment. Members focus will remain on areas critical to the Council, i.e. internal control environments in respect of the embedding of ERP software, major contracts and commercial activities; alongside the Council's ongoing response to COVID19.

Controls: Fraud, Corruption and Whistleblowing

➤ **Fraud, special investigation and Regulation of Investigatory Powers Act (RIPA) update (Exempted by categories 2, 3 and 7)**

Members are provided with exempt reports of the Principal Auditor providing an update on the current fraud and special investigations undertaken by Internal Audit and current RIPA activity.

➤ **Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy and activities, including an update on the National Fraud Initiative**

Report of the Head of Audit provided which outlined the measures undertaken in the last year to evaluate the potential for the occurrence of fraud, and how the Council managed these risks with the aim of prevention, detection and subsequent reporting of fraud, bribery and corruption. It also provided an update on the action plan to ensure continuous improvement and an update to members in response to national and local issues. It was

confirmed that the Strategy had been reviewed and updated to reflect both best practice and to align with the updated Fighting Fraud and Corruption Locally Strategy 2020. A new fourth pillar to Govern and an additional theme to Protect were included in the Strategy.

➤ **Annual Whistleblowing report**

Report of the Director of Workforce and Transformation which showed that there had been 35 cases reported under the Whistleblowing arrangements. Assurance was provided as to the currency of the Whistleblowing Policy and the protection it afforded to whistle-blowers in a recent Employment Tribunal. The judge upheld that the process had been followed completely.

The Audit Committee resolved that there were effective arrangements for the prevention and detection of fraud and corruption, and for enabling whistleblowing (confidential reporting).

Controls: Value for Money

➤ **External Audit: Annual audit letter 2020/21 Shropshire Council**

Following the Redmond review, the Annual Audit letter would no longer be issued after this year.

Report of the Engagement Lead (Grant Thornton) summarised the key findings arising from the work carried out for the year ended 31 March 2020. He introduced the report and drew attention to the unqualified opinion given on the Council's Financial Statements and value for money assessment and the Shropshire County Pension Fund for 2019/20.

➤ **External Audit: Pension fund audit plan 2020/21**

Report of the Engagement Lead (Grant Thornton) setting out the Pension fund plan for the year ending 31 March 2021.

➤ **External Audit: Audit fee letter 2020/21**

Report of the Engagement Lead (Grant Thornton) setting out the audit fee for the year ending 31 March 2021.

The Audit Committee resolved that there was evidence of effective arrangements in place to support Value for Money but recognised the links to good financial management and sound internal controls in minimising opportunities for waste and fraud and maximising income and use of all assets, and the need to ensure continual monitoring by management and members alike given the reported direction of travel of the internal control environment.

Financial reporting

➤ **External Audit: Shropshire County Pension Fund Audit Findings (Information) 2019/20**

Report of the Engagement Lead (Grant Thornton) summarised the findings for the year ended 31 March 2020 on the audit of the Pension Fund financial statements. He proposed that his opinion include an emphasis of matter on the material valuation uncertainties on some investments due to Covid. He drew attention to an overstatement of asset valuations due to the timing of the valuation and how the market had moved by year end. This was however below the materiality threshold and represented three quarters of 1% of the value of the assets.

➤ **External Audit: Audit progress report and sector update**

Report of the Engagement Lead (Grant Thornton) which highlighted the progress made on work undertaken during the year and summarised the emerging national issues and developments of relevance to the Council. Members' attention was directed to the progress to date on the audit delivery and he confirmed that External Audit continued to meet with officers as appropriate.

In September he updated the Committee on the proposed changes to the value for money approach for the 2020/21 audit and the Redmond Review which was published the previous week. Remote working as a direct result of Covid, had extended the audit process which took longer to verify data and to clarify any queries. Shropshire Council were reported as above the median line in terms of progress with the 2019/20 audit and in a good place compared to other local authorities.

The Engagement Lead explained that the Value for Money process would focus on three key areas, financial sustainability, governance and improving economy, efficiency and effectiveness. The thinking behind these changes were about promoting timely, accessible and meaningful reporting on the big issues affecting the Council. External Audit would have more responsibility to make very clear recommendations for improvement and to ensure the Council was implementing those recommendations.

The Redmond review highlighted that the current system for local authority auditing and financial reporting was not working and the arrangements that were envisaged in the 2014 Local Audit and Accountability Act had not materialised. There was concern about a lack of coherence in the system, the local audit market is extremely fragile as there was a dearth of the skills required to deliver focused public audit and the fee structure as it currently was did not support the development of the public audit profession. It recognised an urgent need for action to be taken to address these problems. The Engagement Lead for External Audit confirmed that there would be additional fees to reflect the changes to their approach and due to the impact of Covid on delivery.

In March, the Engagement Lead confirmed that the 2019/20 certification of financial statements had been completed, and the Housing Benefit certification had been completed ahead of the 31 January 2021 deadline. He then took Members through initial plans for the 2020/21 audit.

➤ **Financial outturn report 2020/21**

Report from the Section 151 Officer providing details of the revenue outturn position for the Council and the full year capital expenditure and financing of the Council's capital programme.

➤ **Approval of the Council's Statement of Accounts 2020/21 including a review of accounting policies**

Report of the Section 151 Officer on the final audited outturn position for the financial year 2020/21 and detailed amendments made to the draft Statement of Accounts during the audit process. The report identified what each of the amendments since the draft position were and included a summary of the reasoning for that change.

➤ **Approval of the Council's Statement of Accounts 2019/20 including a review of accounting policies**

Delayed due to Covid: Report of the Section 151 Officer on the final audited outturn position for the financial year 2019/20 and detailed amendments made to the draft Statement of Accounts during the audit process. The report identified what each of the amendments since the draft position were and included a summary of the reasoning for that change. None of those changes were particularly concerning. The Engagement Lead confirmed that he was proposing to issue an unqualified value for money conclusion however, he was recommending that the use of non-recurrent measures to balance the annual budget was not sustainable for the authority and that the Council needed to deliver identified savings and to develop further schemes to support its financial position going forward.

➤ **External Auditor, Redmond Review**

Report of the Engagement Lead, which updated the Committee in relation to the Redmond Review. Two key issues had come out of the review, one was that the accounts were too complex and the other was around the Audit process and the audit fees and the need to ensure that the audit market was sustainable and that audit suppliers could deliver the level of audit that the public would expect of them at a fee that would enable them to do that on a sustainable basis. Redmond was recommending not only the simplification of the accounts but also the production of an audited accounting summary, that would be more of a public document that would enable a lay person to easily understand the key financial dynamics of the local authority. The Engagement Lead reminded the meeting that

members of the Audit Committee did not necessarily have to be Members of the Local Authority and that the appointment of Independent member(s) to an Audit Committee could be a useful way to involve other stakeholders and pull in the expertise of a qualified accountant, for example.

Treasury Management

➤ **Annual treasury report 2019/20**

Report of the Section 151 Officer providing information on treasury activities for Shropshire Council for the year including the investment performance of the internal treasury team to 31 March 2020. He reported that the Internal Treasury Team had outperformed their investment benchmark by 0.42% and that performance over the last three years was 0.32% per annum above benchmark delivering an underspend of £3.75 million. This was mainly due to a review of the Minimum Revenue Provision policy. He reported that no debt restructuring had been undertaken during the year and that all borrowing, and lending transaction had complied with prudential and treasury limits set out in the Treasury Strategy.

He also drew attention to the significant levels of ongoing savings and one-off adjustments and highlighted the minimum reporting requirements for the review and scrutiny of the Council's treasury management policy and activities undertaken by Audit Committee before being reported to full Council for approval

➤ **Treasury Strategy 2020/21 mid-year report**

Report of the Section 151 Officer which provided an economic update for the first six months of 2020/21; including a review of the Treasury Strategy; Annual Investment Strategy, the Council's investment portfolio; the Council's borrowing strategy; any debt rescheduling undertaken and compliance with Treasury and Prudential limits all for 2020/21.

The Treasury team achieved an outturn of 0.62% on the Council's cash balances and had outperformed the benchmark by 0.68%, amounting to £603,800 additional income.

➤ **Treasury Strategy 2021/22**

Report of the Section 151 Officer which proposed the Treasury Strategy for 2021/22 and the recommended Prudential Indicators for 2022/23 to 2023/24.

The Audit Committee resolved that Financial Statements reflected the Council's true position, were complete including all transactions, and were prepared in accordance with International Financial Reporting Standards.